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UNCLAS SECTION 01 OF 02 PRETORIA 004527

SIPDIS

DEPT FOR AF/S; AF/EPS; EB/TPP/MTA
USDOC FOR 4510/ITA/IEP/ANESA/OA/JDIEMOND
COMMERCE ALSO FOR HVINEYARD
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E.O. 12958: N/A
TAGS: KTEX ETRD ECON SF USTR
SUBJECT: SOUTH AFRICAN APPAREL INDUSTRY -- STRUGGLING
TO BE COMPETITIVE

REF: PRETORIA 4428

¶1. Summary. The South African apparel industry is struggling because of increased imports, mostly from China, and a decrease in exports. The attractiveness of low-priced quality merchandise from China combined with the effects of the stronger rand is hurting its ability to compete. Total imports into the United States of South African apparel declined by 43.6% and textiles by 5.7% during the first seven months of 2004 compared to the same period in 2003. The subtotal of AGOA textiles and apparel imports has also started to decrease. Industry expects that the expiration of apparel quotas will make the situation even more difficult. Labour unions and industry are calling on the South African government for help. End summary.

¶2. A leading representative of South African clothing exporters told econ officers on October 7 about the industry's difficulties in remaining competitive in both local and foreign markets. He said SA Statistics indicated apparel imports from China had increased from 123 million garments in 2002 to 235 million garments in 2003. He could not be sure that all of this increase was actually staying in South Africa or going to other countries in the region, but there was no question that the increase in Chinese apparel imports was huge. He acknowledged that most of the competition from China was legitimate in the sense that that country was producing good quality clothing at low prices. He also cited the strong rand as having a major negative impact on the SA apparel industry's competitiveness.

¶3. According to the United States International Trade Commission data, the total value of South African apparel and textiles exports to the United States fell by 43.6% (apparel) and 5.7% (textiles) during the first seven months of 2004 compared to the same period in 2003. U.S. imports of South African apparel exports amounted to $142.9 million in the first seven months of 2003 but declined to only $80.7 million for the same period in 2004. AGOA apparel also decreased from $69 million to $63.9 million during this period, representing a decrease of 7%. Textile exports amounted to $19.8 in the first seven months of 2004, down from $21 million for the same period in 2003.

¶4. The Textile Federation of South Africa regards the strength of the local currency as the main reason for the decline in apparel export values to the US. The rand appreciated by 29% against the dollar between January 2003 and July 2004. It traded on average at R8.68 to the dollar in January 2003 but appreciated to R6.13/$1 in July 2004. The president of the Textile Federation of South Africa lamented that no textile or clothing firm in the world can compete in an environment where a currency appreciated by such an extent against the dollar.

¶5. The strength of the rand has reduced earnings from exports as well as the industry's ability to price its products competitively in world markets. This has resulted in a loss of market share to other exporting countries. Both industry and labor argue that the rand should trade between R9 and R10 to the dollar in order to ensure the competitiveness of the local industry in international markets.

¶6. The South African Textile Federation also bemoan the strong rand as largely responsible for the increased apparel imports, especially from Asian countries. It said that China has increased its share in clothing imports into South Africa from 27% in 1996 to 86% so far in 2004. The South African textile industry complains that the low production costs in China and other Asian countries makes it difficult for domestic companies to compete. It further charges that manufacturers in Asia get such enormous support from their governments that the only real cost they experience is labor, which is about one-tenth of the South African textile industry average. The reduction of import protection and inflow of illegal clothing imports exacerbates the negative effect of cheap imports. As a result, many local manufacturers have had to prune their operations, incurring closure and retrenchment costs.
¶7. The Textile Federation of South Africa predicts that the

expiration of textiles and apparel quotas under the World trade Organization's (WTO) Agreement on Textiles and Clothing (ATC) on January 1, 2005 will result in a substantial increase in the world market share for Asian countries, and worsen the already depressing situation. Both the trade union movement and the apparel industry have expressed fears that importers in Canada, the United States and the EU will move to import cheaper goods from China rather than from South Africa. China's textile industry is enormous compared to the South African industry. In terms of world-installed capacities for spinning and weaving, South Africa represents only 1% of that of China.

¶8. Labor unions are lobbying the government to intervene and postpone the scrapping of China's export quotas, but also to support the depreciation of the rand. The domestic industry is trying to rescue itself by implementing measures such as the "Buy South African" campaign, which encourages manufacturers to source 50% of products locally. Industry is also putting increasing pressure on retail chains to sell locally produced clothing. The industry and trade unions have formed a task team to advise government on the impact of tariffs and quotas on the textile and clothing industry. They may recommend that the government consider such measures as voluntary restraint and various co-operative safeguard mechanisms in order to protect local industries from Chinese and other competitors.

¶9. According to South African industry sources, the South African government has told them it will not push for a re-negotiation of the demise of the ACT in Geneva because "a deal is a deal."

FRAZER